

INTERNATIONAL LAW SECTION SELF-STUDY MCLE TEST

**STANDBY LETTERS OF CREDIT –  
WHY CREDITORS PREFER THEM TO GUARANTEES**

**Self-Assessment Test**

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## **STANDBY LETTERS OF CREDIT –**

### **WHY CREDITORS PREFER THEM TO GUARANTEES**

#### **Self-Assessment Test**

1. The two kinds of letters of credit are “documentary” letters of credit and “standby” letters of credit.

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

2. The principal parties involved in a letter of credit transaction are (i) the applicant, (ii) the beneficiary, and (iii) the issuer, which typically is the applicant’s bank.

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

3. The beneficiary asks the issuer to issue the credit.

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

4. The applicant is the obligor in the underlying transaction that is supported by the letter of credit.

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

5. The presentation of documents for payment under a letter of credit is called a “draw.”

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

6. A standby letter of credit may require the beneficiary to present a draft, which typically would be a negotiable instrument subject to the provisions of Articles 3 and 4 of the Uniform Commercial Code.

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

7. The issuer is not obliged to honor a presentation of documents made after the expiry date.

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

8. An “advising bank,” located in the same location as the beneficiary, may be authorized to accept the beneficiary’s presentation of documents on behalf of the issuer.

TRUE\_\_\_\_\_ FALSE\_\_\_\_\_

9. A bank that has been authorized to pay the beneficiary is called a “nominated bank.”

TRUE\_\_\_\_ FALSE\_\_\_\_\_

10. A confirming bank may accept the beneficiary’s presentation of documents and forward the documents to the issuing bank, but the confirming bank has no obligation to pay the beneficiary.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

11. Under the “independence principle,” the issuing bank must pay the beneficiary even though the applicant has a defense to payment of the beneficiary in the underlying obligation.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

12. Letters of credit issued in the United States are subject to Article 6 of the Uniform Commercial Code.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

13. The ISP and the UCP are sets of rules promulgated by the International Chamber of Commerce to govern letters of credit.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

14. The UCP may apply either to commercial letters of credit or standby letters of credit, but the ISP is intended to apply only to standby letters of credit.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

15. The “strict compliance” doctrine requires the beneficiary to present documents that “strictly” follow the wording specified in the letter of credit, even including spelling errors in the letter of credit.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

16. The preclusion rule allows the issuer a maximum of seven days after the date of presentation of the documents to give notice of its determination to dishonor the presentation.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

17. When the issuer determines to honor a presentation of documents despite the applicant's claim that the presentation is fraudulent, the applicant may seek a court injunction to prevent honor.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

18. The fraud exception to the independence principle is construed broadly by the courts in order to prevent windfalls to fraudulent beneficiaries.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

19. A standby letter of credit serves a function similar to a guarantee, but the guarantor under a guarantee is a primary obligor, as contrasted with the issuer of a standby letter of credit, which is a secondary obligor.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

20. The anti-deficiency legislation in California denies a beneficiary the right to be paid under a letter of credit if as a result of payment, the beneficiary would recover a deficiency after foreclosing on commercial property encumbered by a deed of trust.

TRUE\_\_\_\_ FALSE\_\_\_\_\_

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